

TALKING POINTS FOR CABINET PRESENTATION ON BUDGET DEVELOPMENTS

May 20, 1982

- o Earlier this month, the Senate Budget Committee reported a First Concurrent Budget Resolution which the President supported. Its main features were:

- Significant spending reductions over the FY 1983-85 period:

- \$34 billion in entitlements savings

- \$38 billion in discretionary spending savings

- \$33 billion in management savings; and

- \$42 billion in Federal pay and COLA restraint.

- It addressed the Social Security solvency problem, calling for \$40 billion in new policy measures over the FY 1983-85 period to bring the trust funds into balance.

- It provided adequate levels of defense spending growth; spending authority under the Resolution averaged 13.4% growth annually over the period.

- It held revenue increases to the low end of the range discussed by Capitol participants in the "Gang of 17" budget talks -- \$95 billion over the three year period.

- o Since that time, Congressional wavering on the Social Security front, and pressure from liberal exponents of far steeper tax increases and defense cuts, have pushed this Domenici Resolution off the table:

- In the Senate, Domenici has departed substantially from his original package without Administration support.

- In the House, Budget Committee Chairman Jones has filed an eleventh hour substitute to his own Committee's reported resolution calling for far greater tax increases and defense spending cuts.

- In response, a bipartisan group of conservative Republicans and Democrats has fashioned the "Bipartisan Recovery Budget", which calls for steeper spending reductions, lower tax increases and higher defense spending than is provided in Jones' "Coalition" proposal.

NSC Review Completed.

- o The Administration, at this time, has not indicated support for any of these budget alternatives.
- o Clearly, however, the Bipartisan Recovery Budget in the House is, at this point, the option closest to the President's budget that stands any chance of being adopted.
- o OMB has worked closely with the sponsors of this Resolution, providing technical assistance. This activity, however, should not be interpreted as a Presidential blessing of the outcome.
- o The political prospects appear as follows. In the House:
  - No package, at this point in time, enjoys clear-cut majority support.
  - Jones' major changes to his Committee resolution are:
    - o Narrowing the gap between the revenue levels;
    - o Increasing the defense cuts; and
    - o Watering down spending reductions.
  - These changes appear designed to avoid a referendum on the tax question, appeal to the more liberal members of the Republican Gypsy Moths, and close ranks with the liberal wing of the Democratic party.
  - In the process, Jones appears to have written off the Boll Weevils.
  - The biggest danger the Administration faces in this is that many conservatives in both parties may oppose both alternatives; if so, it may be that no Resolution can pass in the House.
- o In the Senate, meanwhile, Domenici's retreat on Social Security, taxes and spending is designed to close Republican ranks and ensure victory on a party-line vote. The major problem with the changes made by Domenici is that, if the Jones package passes the House, the conference product will almost certainly be unacceptable to the Administration.
- o While the President's signature is not required on a Concurrent Resolution, such a product would make our work far more difficult over the months ahead as we attempt to defend the President's tax, defense and spending reduction program.

- o In this environment, it is important for Administration officials to stay out of the fray until some clear position develops.
  - For example, all Resolutions base their discretionary spending levels on a freeze at 1982 levels, and then assume program-by-program adjustments for specific popular items.
  - Enforcement of the freeze, however, would be on an aggregate basis; room would be available to accomodate increases or decreases from the 1982 mark.
  - The pure 1982 freeze level would provide for \$4.9 billion more in spending than the President's entire FY 1983 discretionary program appropriations request; hence, would more than accomodate Presidential increases provided that offsetting reductions are made elsewhere.
  - We should, therefore, not be dragged into undermining the effort to hold down discretionary spending by criticizing the "freeze concept" with respect to particular programs where the President has requested increases. Administration officials should simply express confidence that the President's request for particular programs can be accomodated within the overall budget authority level provided.